

## Message Text

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ORIGIN AF-10

INFO OCT-01 ISO-00 EB-07 IO-13 AGR-05 L-03 COME-00  
TRSE-00 SP-02 USIA-06 AID-05 NSC-05 EPG-02 SS-15  
STR-04 OMB-01 CEA-01 CIAE-00 INR-07 NSAE-00 ITC-01  
SSO-00 NSCE-00 USIE-00 PRS-01 H-01 INRE-00 /090 R

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FM SECSTATE WASHDC  
TO AMEMBASSY ABIDJAN IMMEDIATE  
AMEMBASSY ACCRA IMMEDIATE

C O N F I D E N T I A L STATE 107517

ABIDJAN PASS AMBASSADOR ROBERT P. SMITH

E.O. 11652: GDS

TAGS: PFOR, ECON, GH, OVIP (YOUNG, ANDREW)

SUBJECT: COCOA AGREEMENT AND AMBASSADOR YOUNG'S MEETING  
WITH GOG OFFICIALS

REF: A) ABIDJAN 4733, B) ACCRA 3483, C) ACCRA 3540

1. FOLLOWING GUIDANCE ON INTERNATIONAL COCOA AGREEMENT IS  
IN ADDITION TO MATERIAL CONTAINED IN AMB. YOUNG'S GHANA  
BRIEFING PAPER.

2. INTERNATIONAL COCOA AGREEMENT - BACKGROUND  
GHANA IS THE LARGEST SINGLE COCOA PRODUCER, ALTHOUGH ITS  
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PRODUCTION CONTINUES TO DECLINE LARGELY BECAUSE OF INSUF-  
FICIENT INCENTIVES FOR ITS FARMERS. IT PARTICIPATED IN  
THE NEGOTIATIONS FOR A NEW COCOA AGREEMENT HELD IN 1975  
IN GENEVA, AND HAS REPEATEDLY URGED THE US TO SIGN THE  
AGREEMENT.

THE AGREEMENT HAS BEEN IN EFFECT SINCE OCTOBER ,, 1976. THE

PRICE RANGE IN THE PRESENT AGREEMENT IS BETWEEN 39 CENTS AND 55 CENTS, WHILE CURRENT COCOA PRICES ARE NEAR TWO DOLLARS PER POUND. EXPORTING COUNTRIES HAVE NOW COLLECTED OVER 100 MILLION DOLLARS FROM A LEVY OF ONE CENT ON EACH POUND

OF COCOA THEY EXPORT. THIS FUND WILL BE USED EVENTUALLY TO PURCHASE A VERY LIMITED BUFFER STOCK. THIS STOCK WOULD CONSIST ONLY OF THE COCOA IN PRODUCING COUNTRIES THAT WAS LEFT OVER FROM CUTS IN EXPORT QUOTAS.

THE UNITED STATES PARTICIPATED IN THE NEGOTIATIONS FOR THE NEW AGREEMENT, BUT DECIDED NOT TO JOIN. OUR PROPOSALS, INTRODUCED LATE IN THE NEGOTIATIONS, FOR MORE RELIANCE ON BUFFER STOCKS WERE NOT ACCEPTED. WE HAVE MADE OUR INTEREST KNOWN, HOWEVER, IN JOINING IN ANY RENEGOTIATIONS. GHANA IS EAGER TO BRING THE US INTO THE AGREEMENT. THERE HAVE BEEN DIFFERENCES, HOWEVER, IN OUR VIEWS ON WHICH LEVEL TO SET THE PRICE RANGE, AND ON THE MECHANICS OF THE AGREEMENT.

THE ECONOMIC PROVISIONS OF THE PRESENT AGREEMENT, SHOULD THEY EVER BE BROUGHT INTO PLAY, WOULD NOT BRING ABOUT GREATER MARKET STABILITY.

-- THE PROVISIONS FOR ADJUSTING THE PRICE RANGE ARE NOT FLEXIBLE ENOUGH TO RESPOND TO UNDERLYING MARKET TRENDS.

-- EXPORT QUOTAS ARE CALCULATED IN A WAY THAT REWARDS A STAGNANT PRODUCER LIKE GHANA BUT PENALIZES A DYNAMIC ONE  
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LIKE THE IVORY COAST. STAGNANT PRODUCERS MAY IN FACT NOT BE ABLE TO MEET THEIR QUOTA ENTITLEMENTS WHILE DYNAMIC ONES WOULD BE FORCED TO RESTRICT EXPORTS, LEADING TO SHORTFALLS IN SUPPLIES FOR CONSUMERS.

-- THE AMOUNT OF QUOTA CUTS AT SPECIFIED PRICE LEVELS IS WRITTEN INTO THE AGREEMENT AND MAY WELL BE EXCESSIVE, CAUSING PRICES TO FLUCTUATE MORE RAPIDLY, NOT LESS.

THE APPROACH WE WOULD PREFER WOULD BE TO ELIMINATE EXPORT QUOTAS AND INSTEAD DEFEND PRICES ENTIRELY BY AN INTERNATIONAL BUFFER STOCK WHICH WOULD STORE COCOA IN AREAS WHERE IT WOULD NOT DETERIORATE RAPIDLY AND WOULD ACT THROUGH ESTABLISHED TRADE CHANNELS. WE WOULD ALSO MAKE THE PRICE RANGE WIDER AND MORE EASILY ADJUSTED, EITHER THROUGH ANNUAL DECISIONS BY A COCOA COUNCIL OR BY LIMITS ON THE BUFFER STOCK'S PURCHASING CAPACITY-

3. TALKING POINTS

-- THE UNITED STATES SHARES WITH GHANA AN INTEREST IN  
NEGOTIATING A BETTER COCOA AGREEMENT.

-- WE DO NOT INTEND TO JOIN THE PRESENT ONE BECAUSE ITS  
PRICE RANGE IS INFLEXIBLE, ITS EXPORT QUOTAS UNREALISTIC,

AND ITS METHOD OF QUOTA ADJUSTMENTS DISRUPTIVE.

-- WE WOULD LIKE TO REVIVE THE PROPOSALS WE SUBMITTED  
AT THE COCOA CONFERENCE IN 1975 FOR AN AGREEMENT BASED  
MORE ON BUFFER STOCKS. WE WOULD ALSO LIKE TO MAKE  
THE PRICE RANGE MORE FLEXIBLE. CHRISTOPHER

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## Message Attributes

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